Real Estate Property Managers and Tenants: Opportunities for Learning Relationships and Customization

by

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Submitted to the Department of Architecture
in Partial Fulfillment of the Requirements for the
Degree of Master of Science in Real Estate

at the

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ABSTRACT

Can the management of real estate assets profit from the value-added models developed 
by other industries? Current trends in the real estate industry have driven the need to 
develop methods for creating additional value on the property management end of the real 
estate business. These trends signal the shift from a growth industry to a mature industry. 
As real estate becomes a mature industry, real estate companies should review how other 
mature industries have created added value in their assets.

The thesis reviews the current academic literature relating to customer relationships in 
industries other than real estate. From the review, a model is developed for customizing 
real estate services to meet the specific needs of individual tenants. The practice of a 
property management company is studied and tested against the model.

Analysis of the research draws the conclusion that tenants do have unsatisfied needs. This 
creates the opportunity to supply customized services to meet their demands. Providing 
customized services to tenants will only provide a strategic advantage to real estate firms 
if the customization results from systematically processing the information gained through 
learning relationships with tenants. Tenants are reluctant to make an effort to build 
learning relationships. Property managers must overcome this resistance by translating the 
information that they gain about tenants into services the tenants value.

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CHAPTER 1: STATEMENT OF PURPOSE

Introduction

*Can the management of real estate assets profit from value-added models developed by other industries?*

The goal of this thesis is to develop a model for adding value to the management of office buildings through tenant relationships and service. This was done by searching for existing models in other mature industries and exploring the application of these models to the real estate industry. A model for customizing services to the specific needs of individual tenants resulted from this research. An understanding of both tenants’ needs and the typical practices of real estate management companies was critical to analyze the feasibility of application of the model. The purpose for researching tenants and property managers was not to evaluate any specific company but, rather, to explore how the model may be applied to the office management industry.

Why Developing a Model is Important

Current trends in the real estate industry have driven the need to develop methods for creating additional value on the asset management end of the real estate business. These trends signal the shift from a growth industry to a mature industry. The outlook for growth in the value of commercial real estate has changed in the 1990’s. During the past fifty years, the value of real estate assets appreciated primarily due to market growth. Factors such as overbuilding in the 1980’s, the slowing growth rate of the adult
population, and the maturing of the baby boom have impacted the economic fundamentals which support growth.\textsuperscript{1} As the industry evolves from a growth industry to a mature industry, real estate assets are now coming to be viewed as commodities. With this shift, real estate companies should review how other mature industries create added value in their assets. By improving the profits generated by the management of office buildings, the value of the underlying asset (the building) will also be improved.

A number of characteristics which epitomize the maturing of an industry are reflected in the commercial real estate industry. The shift from private ownership to public ownership is a sign of a maturing industry. This shift is observed in the trend towards “securitization” of real estate assets. Not long ago, many believed that capital markets revolved around commercial real estate. After the real estate crash and liquidity crunch of the early 1990’s, the public capital markets have come to be viewed by many as the center of the universe, and that real estate revolves around them.\textsuperscript{2} Consolidation of companies within an industry is another characteristic that marks the maturing of an industry. The presence of only three large U.S. automobile manufacturers is the result of that industry’s maturity. Consolidation is now being witnessed in real estate services companies and REITs. Bill Rothe of Koll predicts consolidation of real estate services companies will result in “The Global Five”,\textsuperscript{3} which will be the five large real estate management companies that remain in the long run after consolidations. As described by Aldrich and

\textsuperscript{1} Peter Aldrich and Thomas Eastman Whom Do You Trust? Waking Up to a New Paradigm.

\textsuperscript{2} Tim Riddiough, Real Estate Capital Markets Class Notes, M.I.T./CRE 1997 Spring semester course no. 11.432J, p. 6.

\textsuperscript{3} Bill Rothe, CEO of Koll Real Estate Services, Speech to Real Estate Exchange in Hartford, CT, February 1997.
Eastman, the focus of mature industries is on customer retention in place of product
generation. Mature industries segment the market and target specific customers for
specific products rather than simply supplying the market.

**Previous Research by Others**

There have been numerous academic works on customer satisfaction, quality, and service.
But, these works are typically not focused on real estate. Theses on asset and property
management and service quality have been completed by students of the Center for Real
Tenant Retention* are specifically relevant. Real estate services companies themselves
have studied quality and service. LaSalle Partners and Spaulding and Slye have each
performed studies and prepared presentations on the subject.

Previous theses focused on quality management and service. It was implied that by
implementing quality programs, tenant retention could be improved. This thesis will
diverge from focusing on quality and, instead, focus on “value creation”. This will be
accomplished by focusing on what type of service office building tenants view as creating
value for themselves. Whether a service is valuable to a tenant may be measured by
numerous methods: the tenant may be willing to pay extra for that service; the availability
of the service may make the tenant more inclined to renew a lease; or, the service may
make lease renewal negotiations go smoother. Tenant retention and quality are certainly issues in common with this thesis and previous theses.

**Organization of This Thesis**

Chapter Two of this thesis reviews the academic literature for theories and working models currently in use by other industries. The literature points towards customization as a method of gaining a greater share of a customers business. From this, a three-part model is developed to apply towards real estate companies. The model includes: (1) understanding the tenants’ needs through learning relationships; (2) customizing the product and service so that the tenants needs are fulfilled; and, (3) valuing the investment necessary to fulfill the tenant’s needs so that only profitable relationships are pursued.

Chapter Three examines the practice of a real estate management company using interviews with tenants and management. Interviews were focused on gathering data that could be analyzed to compare the fit of current practices to the proposed model. The analysis in this chapter demonstrates that the procedures of the model are not employed by property managers, but it also indicates that utilization of the model will create value for property managers. Information from the tenant interviews also suggests what tenants’ needs are, and how management may fill those needs.
Chapter Four summarizes the results of the research. Research topics that may complement and further develop the customization model are recommended. Topics for additional research include: broadening the base of interviews to give more credibility to the findings; branching the model out into other real estate sectors; deeper research of certain portions of the model; and, exploring other aspects of the property management processes, such as organizational requirements, that may be affected by the model. Conclusions are drawn about the ability of property managers to adopt the customization model. Property managers can use the customization model to create a strategic advantage and improve the rate of return on their investment in office buildings.
CHAPTER 2: BUILDING A MODEL

Introduction

The quality movement of the 1980's contributed to new approaches of measuring success in both the manufacturing and service industries. Companies focused on benchmarks of market share, quality indices, and customer satisfaction to measure performance. Using the quality model, companies aimed to reduce delivery costs and improve customer retention. With the information and technology tools available today, companies can go a step further.

"Companies can link their investment in customer relationships directly to the returns those customers generate.... Instead of using abstract metrics to measure quality, companies can define their target customer base, quantify the current and the full-potential value of these relationships, and commit to closing the gap between the two."

In the 1990's, the concept of customizing products and services for an individual customer or market segment appeared. The concept of customization has been well researched and documented in literature by both academics and practitioners. Since the mid 1990's, academic research has been refining the customization model. Through this, the model has been further developed by research into how to best apply customized offerings and how to measure a customer's profit potential. These areas of research are vital so that implementation of the model contributes to achieving maximum profits. Although the research has not been specific towards managing office buildings, there has been considerable attention to the service industry and, his 1991 thesis, Andrew Segal

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established real estate management to be strongly on the service side of the product-service continuum.

How can real estate companies realize the full potential of their relationships with their tenants? The goal of this chapter is to develop a model that property managers may employ to improve the profits from their tenant relationships. A review of the current literature on "customization" suggests three key areas: Learning Relationships, Approaches to Customization, and Investment Analysis. This chapter is arranged around those areas, and ends with a summary of the model. Each section includes a review of the current academic research on the topic and examples of practice. Each section also includes a piece of the model, and concludes with questions to be asked of real estate managers and tenants which determine the feasibility of applying this model to the management of office buildings. The Summary combines the pieces of the model that were developed in each section into one comprehensive model. The Summary also includes a collection of the questions raised in each section.

**Learning Relationships**

*The Potential of Customer Relationships:* What is the purpose of building relationships with customers? Do customer relationships and a company's understanding of a customer's needs effect the way business is conducted? Grant and Schlesinger (1995) explain the importance that customer relations have on a company's profit:

"Achieving the full profit potential of each customer relationship should be the fundamental goal of every business. The logic is as simple as it is
compelling: Profits from customer relationships are the lifeblood of all businesses. And, at the most basic level, these profits can be increased in only three ways. The first is to acquire new customers - to increase the number of people who use the product or service. The second is to enhance the profitability of existing customers - to motivate people to engage in behaviors that generate higher returns. The third is to extend the duration of customer relationships - to maintain those enhanced behaviors for a longer time.  

While market share is an important determinant of profitability, many companies are now finding that customer loyalty is what drives profitability and growth. In the article "Putting the Service-Profit Chain to Work", the authors describe how the "quality of market share, measured in terms of customer loyalty, deserves as much attention as quantity of share." The value of customer loyalty becomes apparent when the lifetime revenue stream of a customer is considered. A loyal pizza eater may generate $8,000 of revenue over a lifetime, while a Cadillac owner may generate $332,000.

Companies that recognize the potential of loyal customers have developed methods for tracking the relationship between customer satisfaction and loyalty. Banc One has achieved a return on assets of more than double that of its competitors in recent years. This has been accomplished through strategies derived from its measure of depth of relationship with customers. This is a measure of the number of financial services used by their customers, compared to how many are available. Likewise, Taco Bell uses share of

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stomach which is a measure of a customer’s food purchases made at Taco Bell against all other food purchases a customer can potentially make.⁸

By using methods to track customer loyalty, “customer sacrifice gaps” may be recognized. Customer sacrifice gaps are the “difference between a company’s offering and what each customer truly desires.”⁹ Grant and Schlesinger explain that by using the information gained from customer relationships with database and information technology that is now available, companies can identify which customers have the highest profit-improvement potential. With an understanding of these gaps, companies may create strategies to fill the gap and capture a greater customer share -- the percent of a customer’s total budget for an item or service that the customer spends with that company.

“The gap between most companies’ current and full-potential performance is enormous.”¹⁰ An example of the large profit potential obtainable by a small increase in current performance is illustrated by the study of a Canadian grocery store discussed in Grant and Schlesinger’s article. The store found that selling just one more produce item to each shopper would increase profitability by 40%. Converting 200 secondary shoppers into primary shoppers could represent a 20% increase in profitability. If shoppers substituted two store brand items for national brand items, profitability would increase by

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55%. Individually these changes represent significant improvement to the store’s profitability, and, in combination, dramatic improvements could occur.

Gouillart and Sturdivant show how Nalco Chemical and Betz Laboratories tightened the gap in their article “Spend a Day in the Life of Your Customer.” Both companies manufacture and distribute chemicals for water treatment. By listening to and learning about their industrial customers, they discovered that maintenance departments did not want to be bothered with problems about water treatment. With this information, both Nalco and Betz developed services to take over the entire water treatment process for their customers. In doing so, both companies differentiated themselves from their competitors and gained a greater share of their customers’ water treatment demands. As a result, both Nalco and Betz have achieved impressive financial performance in comparison to other chemical companies.

Koll Management Services, Inc., one of the nation’s largest real estate services companies believes that tenants have sacrifice gaps and they are trying to fill it. Koll has a program called Koll Direct, in which it uses its tremendous buying power to gain significant discounts on products which it makes available to its tenants. The products range from office equipment, business supplies, and furniture, to personal products such as flowers and entertainment services. This service provides tenants with purchasing power that may only be obtained through economies of scale.¹²

Do customer sacrifice gaps apply to office building tenants? If so, then perhaps real estate companies may be able to improve their financial performance by closing the gaps. To determine if sacrifice gaps exist, some questions must be answered by both tenants and managers. Tenants should be asked questions that lead managers to an understanding of what the full potential of a relationship with that tenant might be. Does the tenant’s business plan involve growth? What functions does the company perform that are not part of its core function, and can a real estate company assume any of those functions? Do they currently measure the depth of relationship and the potential of that relationship? Do real estate managers measure the quality of the market share they receive from a tenant’s total real estate budget? How do they measure it?

*Customization:* Customization is the delivery of products or services that have been designed to meet the needs and requirements of a specific customer. It is becoming ever more necessary as markets disaggregate. “Customers can no longer be thought of as members of a homogeneous market.”¹³ Segmenting a market only provides customers with numerous choices and products with the attributes that the average customer needs. “Customers, whether consumers or businesses, do not want more choices. They want exactly what they want - when, where, and how they want it.”¹⁴

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As a result of competition based on cost and efficiency, companies experienced shrinking profit margins. From shrinking profit margins arose the concept of customization. Customization is used to insulate a company’s product or service from the fate of commoditization.

“Commoditization, the natural outgrowth of all competitors fighting with the same weapons, becomes a self-fulfilling prophecy. And commoditization is why so many industrial companies that embraced time-based competition or reengineering may have realized short-term gains but have ended up destroying their industries’ profit margins.”

Many companies recognize that not all customers are alike and do not want the same commodity product. While there may be a large market that finds value in a company’s product, that market is comprised of individuals who value different aspects of the product. Most companies continue to operate with mass marketing and mass production techniques, and they deal with these fragmented markets by delivering a greater variety of goods. This is not customization:

“Most managers fail to understand that variety is not the same thing as customization. While mass marketing requires customers to sort through a variety of options, mass customization offers them exactly what they want.”

Bob Best of LaSalle Partners estimates that 90% of a tenant’s decision-making process when choosing office space is cost and location. Only the bottom 10% of the decision-

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making process is affected by property management.\textsuperscript{17} Tenants should be questioned to determine if the rental of real estate space is considered a commodity. Do tenants believe that the space they lease in one building is differentiated from space in another building only by location and cost? Does the real estate management company provide individual attention or services to the tenant? If tenants consider their rental space a commodity, then real estate companies need to be evaluated to determine if the practices they employ contribute to it. How are office tenants viewed by real estate management, as unique customers or as a mass market? Does this affect how real estate companies deliver their product (space) and services to the tenants of an office building? Answering these questions will help a real estate company recognize how well they understand and respond to the needs of tenants.

\textit{Understanding Customers Needs:} Understanding customer needs is the basis for successfully marketing a product or service. MacMillan and McGrath (1996) explain the pitfalls of providing a product whose attributes are not based on customers needs.

"Profitable product strategies are built around giving the customer want they want and no more. Companies that underinvest in attributes that customers value will lose those customer; companies that overinvest in attributes that customers do not want will lose money."\textsuperscript{18}

Regardless of this, Anderson and Narus (1995), show that it is common practice for product strategies not to be built around giving the customer what they want.

“Research shows that many suppliers provide customers with more services than they want or need at prices that reflect neither the value of the service nor the cost of providing it. A handful of companies recognize that they can reduce cost and use service more effectively to meet customers’ requirements and get more of their business.”

Research and case studies can help provide processes to learn and understand what customers want. Pine, Peppers, and Rogers (1995) explain what learning relationships are and how to create them:

“A learning relationship is an ongoing connection that becomes smarter as the two interact with each other, collaborating to meet the consumer’s needs over time. In learning relationships, individual customers teach the company more and more about their preferences and needs, giving the company an immense competitive advantage. The more customers teach the company, the better it becomes at providing exactly what they want - exactly how they want it - and the more difficult it will be for competitors to entice them away.”

A desire to listen to and collaborate with each customer, the ability to elicit information, and the capability to turn complex designs into products are three elements necessary to cultivate learning relationships.

Pine, Peppers, and Rogers (1995) use the case of Individual, Inc. to illustrate how to customize a service to create a strategic advantage. Individual, Inc. provides customers with published stories that fit the specific interests of that customer. Initially a customer is assigned to an editorial manager to determine the type of information the client wants. In the first weeks of service, clients typically find 40% to 60% of the articles they are

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19 James C. Anderson and James A. Narus, “Capturing the Value of Supplementary Services,” Harvard Business Review (January/February 1995), pp. 75-76,
provided with are relevant. Every week Individual, Inc. asks the clients to rate the articles
they received as "not relevant," "somewhat relevant," or "very relevant." With this
information, they are able refine their service so that, by the fourth or fifth week, the
clients respond that 80% to 90% of the articles are relevant. At this point, Individual, Inc.
will reduce the frequency of customer surveys. Additionally, Individual, Inc. will
customize the delivery method to the client. This continuous learning relationship with
their customers has resulted in a 85% to 90% rate of customer retention while also making
it that much more difficult for a competitor to catch up with Individual, Inc., on the
learning curve.

Companies must do more than conduct market surveys to understand their customers
needs:

"The ability to empathize with and gain insights from customers is the
single most important skill needed to direct a company's strategic
posture.... A failure to be market focused results in reduced service levels,
streamlined product lines, and uniform product designs. It inadvertently
favors cost reduction at the expense of individuality, even when market
needs point toward greater customization. Managers who are not market
focused often come to the conclusion that there is really no fundamental
difference between their offering and that of their competitors."21

The story of Woodbridge, a U.S. paper company in Gouillart and Sturdivant's article
(1994), shows how Woodbridge came to understand their customers' needs through a
learning relationship. The company dominated its industry as a manufacturer of specialty
colored packaging paper. They had a product line of 440 items. Some of those items sold

21Francis J. Gouillart and Frederick D. Sturdivant, "Spend a Day in the Life of Your Customers," Harvard
in very low quantity and were a nightmare to produce because they upset the production schedule of the items which sold in high quantity. When a competitor, who manufactured only 140 items, began taking away market share because it had a shorter lead time, Woodbridge considered eliminating those low quantity items which upset the manufacturing cycle. The theory was to get rid of the marginal products so that they could compete with the delivery schedule of the competitor.

Fortunately, however, Woodbridge’s CEO decided to meet with the printer who bought the paper, as well as with the soup manufacturer, to whom the printer sold the paper. At the meeting, the Woodbridge group questioned the soup manufacturer about marketing and manufacturing soup. They asked questions about what problems and issues they faced, as well as how they could increase profits.

The soup manufacturer stated that they had problems with promotions. They had trouble forecasting the success that a promotion will have, and often run out of stock. While there are many in-house problems that contribute to stock outs, the problem was compounded by not receiving the packaging from the printer quickly enough. The printer responded that he is delayed due to the delivery of the paper. The printer also revealed that the length of the rolls of paper did not match his press. This was news to Woodbridge.
Woodbridge devised a plan which would activate a older, unused paper machine to help solve the problem during promotions. They could also provide the paper rolls in the length that the printer needed. The combination of these two events would help alleviate one of the soup manufacturers major concerns.

The next thing that Woodbridge learned was that two of the colors that it had planned on discontinuing were very important to the soup manufacturer's marketing. Woodbridge was the only paper company that supplied those two colors. The soup manufacturer informed Woodbridge that without those colors, they would be like all other paper companies, and would have to compete on price alone. This discussion resulted in a new pricing structure for those two colors.

By meeting with, and gaining an understanding of their direct customer and the end user, Woodbridge was able to deliver a product which helped solve one of the customer's problems. A problem of which Woodbridge would have otherwise been unaware. It was also a problem that the soup manufacturer would not have normally looked to the paper company to solve. The meeting also prevented Woodbridge from making a unilateral decision which would have eroded its competitive advantage.

Gouillart and Sturdivant's article (1994) provides four lessons for understanding customers' needs and becoming market-focused:
1. "Recognize that 'customer' means more than the next step in the distribution chain."\textsuperscript{22} The story about Woodbridge is an example where the direct customer is not the end user. Woodbridge sells a product to a printer, who in turn sells to a soup manufacturer. The end user, the consumer who buys soup at the store, is still a few steps away. The story illustrated that the needs of the soup manufacturer and the consumer were needs that were essential for Woodbridge to understand.

2. "Count on your customers for information, not for insight."\textsuperscript{23} Customers may be able to describe their needs, but in many cases they do not. The earlier example of Nalco Chemical and Betz Laboratories demonstrated this. Their customers did not want to be bothered with water treatment processes, but they did not vocalize to Nalco or Betz that they wanted to be relieved of the process. Nalco and Betz processed the information that they knew about their customers -- that the water treatment process bothered them -- and formulated a solution to the problem.

3. "Don’t expect brilliant insights each time you study a customer. Small operational shifts made from a market focused perspective can also add up to significant improvements."\textsuperscript{24} Recognizing customer needs that require only minor changes to the delivery of a product or service may generate large increases in profit. MacMillan and McGrath (1996)\textsuperscript{25} have an example of coffee cup holders which illustrate this point. Honda was the first auto maker to install coffee cup holders in their cars. As a result, in the year that only Honda provided the holders, Honda gained considerable market share.

\textsuperscript{22} Ibid, pp. 116-117.
\textsuperscript{23} Ibid, pp. 124
\textsuperscript{24} Ibid, pp. 124
4. "Involve all levels of the organization in the drive to become market focused." Senior management's commitment to understanding the customer's needs is essential. However, this commitment must extend through the entire organization in order to achieve the greatest benefit.

Another method that companies can use to learn about their customers' needs is simply observing how customers buy and use products and services. MacMillan and McGrath (1996) explain what Pepsi learned from observing purchases of soft drinks in the early 1970's. The company found that the limiting factor in how much soda a consumer purchased was the weight of the bottles. As a result, Pepsi lead the industry in converting to plastic bottles.

An example of how a real estate company used the information they gained from a learning relationship with a tenant into a strategic advantage was explained by a Partner at Manekin Corporation, of Baltimore, Maryland. The management at Manekin learned that the tenant, who occupied space at numerous locations, found facilities and asset management to be a distraction from their core business. Manekin responded to this information by offering to provide those services to the tenant, because, as a real estate company, Manekin had a core competence in those services.

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28 Donald Manekin, Partner, Manekin Corporation, Lecture, MIT/CRE 1997
How can real estate companies develop learning relationships with their office tenants? By the nature of most leases, real estate companies may have an opportunity to create solid relationships. Leases are long term and the tenant is constantly in the manager's building, where there can be continuous contact. Assuming that real estate companies can identify the proper tenant contact, how do they build learning relationships that help them gain a greater share of the tenant's business? How does management currently learn what needs a tenant has? When management learns of a need, do they respond to it? Do tenants think of communicating their concerns to the real estate management, or is the management company only viewed as a provider of space, not as a problem solver? How would the tenant respond to property management's efforts in building a learning relationship? Will they share their problems or keep them confidential?

**Approaches to Customization**

*Understanding a Products Attributes:* Understanding the customer's needs is one step towards providing a customized product or service. Understanding the attributes of a product or service is the next step. All products have more attributes than meet the eye. To understand the dynamic relationship between a product's attributes and customer's needs, MacMillan and McGrath (1996) developed a model called the ACE Matrix (Attribute, Categorization, and Evaluation). It can be used to indicate what action a company should be taking towards each attribute.
The first step is a “discovery-driven process for uncovering salient product attributes - those that, all other things being equal, will swing a purchase decision.”

Observing the behavior sets of concentrations of customers (patterns of how and why they use a product) is the key to uncovering the salient attributes. Four ways of looking for salient attributes are:

1. Identify parallel needs. Most products and services have an obvious primary attribute which satisfies customers’ needs. Typically there are numerous auxiliary attributes which simultaneously satisfy customers’ needs. Those which are satisfied by auxiliary attributes are called parallel needs. An explanation from the Director of Human Resources at Spaulding and Slye, a Boston development and management firm, on how she assisted a tenant illustrates the parallel needs of office tenants.

A tenant of her firm, located outside of the New England area, was expanding to Boston. With no local knowledge, the tenant was concerned about staffing the office. She assisted the tenant by applying her human resources expertise and knowledge of the Boston market to staff the tenant’s office with administrative personnel. For their tenant, the primary attribute of leasing office space was providing their employees with a place to work. But they also needed employees. Their need for a work force is an example of a parallel need. Spaulding and Slye fulfilled that need with an auxiliary attribute by assisting with human resource services. To fully understand the potential of a product, all of these needs and attributes must be discovered.

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30 Eileen Kiley, Vice President, Spaulding and Slye Colliers, Personal interview with author May 1997
2. Identify purchasing patterns. Understanding how, when, and why customers purchase items can provide insights for discovering the salient attributes. The earlier example of the Pepsi-Cola Company study which identified that the amount of soda customers purchased was limited by how much they could carry, clearly illustrates the importance of understanding purchasing patterns.

3. Observe how customers actually use the product. Observing the difficulty or ease with which a product is used can help identify positive and negative attributes. If a product requires assembly, and it is observed that customers have difficulty assembling the product, a bike for example, this may lead to selling pre-assembled bikes. By observing Anderson Consulting's\(^{31}\) use of office space at the Wellesley Office Park in Wellesley, Massachusetts, property managers may learn about numerous attributes that Anderson associates with the space. Anderson employs the “hoteling concept” in the office -- employees do not have permanent offices; rather, each day they are assigned an office that is appropriate for the work that they have planned for the day. Because most of their employees often work at off-site locations, Anderson is able to house many more employees in this space than they could if each employee had a permanent office. In addition to using the hoteling concept for offices, they also operate the building as though it were a Five-Star Hotel. The employees and visitors to the building receive the type of services and quality that would be expected in a prestigious hotel. This includes valet parking, concierge service, catered functions and more. These observations suggest that Anderson expects many different attributes from office space than the typical real estate

\(^{31}\) Peter McAully, Facilities Manager, Anderson Consulting, Personal interview with author July 1997
management firm offers. Although Anderson provides the additional services for themselves, it may indicate to property management firms the potential range of additional services that could be provided.

4. Identify customers’ perception of risk. Understanding what customers perceive as risk may lead to the creation of attributes which address and calm a customer’s concerns. Guarantees and return policies are an example of this. Often a customer will see a product which they believe will be beneficial; however they are uneasy about how the product will actually perform, and be hesitant about purchasing it. If the customer is assured that they will not be stuck with the product if it does not live up to its expectations, then they will not perceive the purchase as a risk. In this case, the guarantee is an attribute.  

Uncovering salient attributes of a product or service requires an intimate understanding of the target customer as discussed in the previous section on learning relationships. With a better understanding of a products attributes, a company can make decisions regarding what action a company should take towards individual attributes in order to meet customers’ needs. Johnson Controls Limited, a facilities management company in the United Kingdom, has gone to extremes to uncover the salient attributes of facilities management. They have done so, by claiming that they will perform all functions of a tenant’s business that are not its core functions. A JCL Account Manager stated, “JCL’s core business is wherever I think I can add value.”  

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the attributes of facilities management include any function that a tenant’s company may need, whether it is building related or not.

The next step is to plot the attributes on the ACE Matrix (see figure 2-1) in order to identify which attributes of a product are valuable to different segments of the market. Attributes are mapped onto the matrix by the way they affect specific customers or market segments. This step is repeated for all of the various customers or market segments in which a company is considering making an investment. Analyzing the matrix leads the company to add the most profitable attributes and to remove negative attributes.

In Figure 2-1, each attribute is mapped into a cell in a grid that represents the impact that the attribute has on the competitiveness of the product for a particular customer. “The columns capture the level of energy that the attribute generates - whether customers regard it as a basic, a discriminator, or an energizer. The rows reflect the sentiment that the attribute provokes in the target customer - positive, negative, or neutral.”

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In the ACE Matrix of Figure 2-1, each cell is labeled with a description of the emotion that the attribute elicits from the target customer: Nonnegotiable, Tolerable, So What?, Differentiator, Dissatisfier, Exciter, Enrager, and Not Applicable. Below the description is the suggested action which a company should take towards that attribute. For example, the description of Exciter falls in the Energizer and Positive cell of the matrix. An attribute which is an exciter will lead a customer to purchase the product. Because an exciter attribute will swing a purchase decision, a company should take the action of performing this act better than their competitors.

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35 Ibid, pg. 62
Is this a tool that might help real estate companies? How can they utilize this tool? The first step is to determine the salient attributes of rental space in an office building. What attributes do real estate managers and tenants think an office building offers? What attributes are basic to office buildings? What attributes differentiate office space or energize a tenant into making a decision about leasing space? What risks do tenants face when leasing space? How does a tenant use the space that they lease, and does it affect the way they do business? With a better understanding of the product that real estate companies offer, they can then begin to customize their product to meet the needs of their tenants. By plotting the attributes on the ACE Matrix, real estate companies can decide which attributes to improve, add, or remove.

The ACE Matrix is a useful tool which can be used for evaluating the attributes of a product or service, and then determining what type of action should be taken in response to that evaluation. The large array of possible attributes and action responses which can be taken to customize those attributes can be categorized into the following four types of customization.

*Types of customization:* Gilmore and Pine (1997) have identified four distinct forms of customization which they call *collaborative, adaptive, cosmetic, and transparent.* An understanding of these types of customization will enable a company to concentrate on which attributes are most likely to affect their product. The appropriate use and definition of each of these types of customization is:
"Collaborative - Involves a dialogue with individual customers to help them articulate their needs, to identify the precise offering that fulfills those needs, and to make customized products for them. This is appropriate for businesses whose customers can not easily articulate what they want and grow frustrated when forced to select from a plethora of options....Customers in these industries have to make one time decisions based on difficult and multidimensional trade-offs....Customizing the representation permits customers to participate in the design stage and play with the possibilities available to them....In effect, there is no supply chain anymore, instead, a demand chain is created.

Adaptive - Offer one standard product that users can alter themselves....It is the product itself, rather than the provider, that interacts with the customer.... This approach is appropriate for businesses whose customers want the product to perform in different ways on different occasions....If the intrinsic uniqueness of each customer’s demands spans an enormous set of possibilities, some form of adaptive customization is imperative.

Cosmetic - A standard product is presented differently to different customers. The offering is packaged specially for each customer. This approach is appropriate when customers use the product the same way and differ only in how they want it represented.

Transparent - Provide each customer with unique goods or services without letting them know explicitly that those products and services have been customized for them. This is appropriate when customers’ specific needs are predictable or can be easily deduced, and when customers do not want to state their needs repeatedly. Transparent customizers observe customers’ behavior without direct interaction and then inconspicuously customize their offerings within a standard package."

Figure 2-2 diagrams these forms of customization by placing them in cells in a matrix which correspond to what aspect of the product is changed when that specific form of customization is performed. From this diagram, it can be seen that the product is changed only when transparent or collaborative customization take place. When the representation or packaging of the product is changed, the form of customization is either cosmetic or collaborative. Adaptive customization involves no change in the product or the representation.

Table 2-1 was created to show examples of how specific services could be categorized. The first column of the table lists customized services. The column separates the services into two groups, custom services that are provided by firms in the real estate industry and custom services that are provided by firms in other industries. An 'X' is placed in the cell which corresponds to the category that is appropriate for that type of custom service. It is not uncommon for a custom service to be developed using more than one of the categories of customization.
<table>
<thead>
<tr>
<th>Customized Service</th>
<th>Approaches to Customization</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Collaborative</td>
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<tr>
<td>Services from Real Estate Firms</td>
<td></td>
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<tr>
<td>Human Resources-Staffing</td>
<td>X</td>
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<tr>
<td>Asset and Facilities Management</td>
<td>X</td>
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<tr>
<td>Economy of Scale Purchasing</td>
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<tr>
<td>All Non-Core Business Functions</td>
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<td>Services From Other Industries</td>
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<td>Water Treatment</td>
<td>X</td>
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<tr>
<td>Providing Relevant Publications</td>
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<tr>
<td>Specialty Packaging Paper</td>
<td></td>
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<tr>
<td>Coffee Cup Holders</td>
<td></td>
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<tr>
<td>Plastic Soft Drink Bottles</td>
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</tr>
</tbody>
</table>

Table 2-1: Services Categorized by the Approach to Customization

Through an understanding of customer needs and product attributes, a company may use the ACE Matrix and the four forms of customization to systematically approach the customization process. Mass customization, if not performed well, will be expensive and complex. The key is to identify the points of “common uniqueness” and fill the “customer sacrifice gaps.”

“Common uniqueness” are the dimensions along which customers differ in their needs. Customer sacrifice gaps are the difference between a company’s offering and what each customer truly desires. To be effective, mass customizers must let the nature of the sacrifice gaps drive the individual approach to customization. Instead of taking a hit or miss approach, successful companies customize their goods and services only where it counts.”

The nature of leasing office space typically demands that real estate companies customize their product for the tenant. When real estate companies negotiate with tenants and

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37 Ibid, pp. 95-97
determine what space requirements a tenant has, and then perform tenant improvements to fit a space to the tenant's needs, collaborative customization is occurring. Do real estate companies go through the process described above to establish that collaborative customization is the appropriate form to use? Are there occasions when another form of customization would be more appropriate than collaborative, and when those occasions arise, are they recognized?

Once a company is been able to effectively understand how to customize their product or service to meet customers needs, they need to be able to deliver that product to the customer. This presents the challenge of cost-effectively designing and producing a multitude of different products or services.

Production/Delivery Strategy: Companies which implement a customization model need to develop a strategy for producing their product or service. The system must be developed so that it has the ability to respond to customer demands. The delivery process of customized products needs flexibility built into the system to accommodate a variety of finished products. To accomplish this requires the use of information technology, so that the demands of the customers can be communicated to the production workers. Pine, Peppers, and Rogers (1995) describe the flexible manufacturing process necessary to customize products:

"Service and manufacturing companies that successfully mass customize create modules - components or processes - that can be assembled in a variety of ways to enable the companies to tailor products or services for specific customers at relatively low cost. A company also needs a design
tool that can take a customer’s requirements and easily determine how to use its capabilities to fulfill them.\textsuperscript{38}

Stripping the product or service down to the core product creates a module that can be customized by adding a variety of other modules. In some cases, all of the additional modules may be standard components. This provides for efficient production, given that the production process is supplied with the necessary information and tools. Stripping a product down to the core enables more flexible manufacturing processes, but it also allows more flexibility to the marketing and sales force. The supplementary offerings may be delivered as either standard to the core product or options to the core product, depending on the competitiveness of the market. Anderson and Narus (1995) describe the core product as **naked solutions**:

"Companies such as Apple Computer and Microsoft have constructed **naked solutions or naked systems** that allow them to lower costs. Naked solutions are a bare bones minimum number of solutions valued by all customers in a given segment. These naked solutions are then wrapped with options valued by the individual consumer."\textsuperscript{39}

The manufacturing process used by Lutron Electronics, a producer of lighting controls, is an example of mass customization in practice (Spira, 1993). In the 1960’s, many lighting control manufacturers went out of business because they tried to compete with the industry leader on prices. Lutron chose a different tactic and, instead, decided to compete on product differentiation. (They also raised their prices.)


Lutron trains its employees to be adaptable. The process begins with Lutron engineers designing a standard product with limited options. Then, by working with individual customers to determine their needs, the options are expanded. This may result in one hundred models. The engineers then design fifteen to twenty standard components which may be assembled to create the same one hundred models. The production workers then assemble the standard components. Additional custom work and special services can be provided to meet customer requirements, for which a charge is added.

Since discovering the paradigm of mass customization, Lutron has learned that the system of obtaining and delivering new business requires constant improvement. To be successful, Lutron must continue to bring in new business and deliver it profitably. By offering variety and customization, Lutron has greatly expanded its market share.  

Customized products can be produced in a variety of ways and often more simplistically and less costly than in the way Lutron customizes. Hallmark Cards and American Greetings mass customize their greeting cards through the use of electronic kiosks. Consumers may choose from a menu of different offerings to create exactly the card that they desire.  

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From the concept of naked solutions, Anderson and Narus (1995) studied the best practices of leading-edge companies and developed a model called *flexible service offerings* to differentiate a company’s offerings. This model can be used by manufacturing and service companies to reduce the number and cost of services they use to augment their core product, how to charge for the services, and how to provide greater value to customers. Services are divided into three categories: 1. existing standard service; 2. existing optional service; and, 3. new services. A cost is assigned to each service. Customers have the ability to select only those services which they value. Likewise, in order to entice customers, a company has the ability to offer additional services to customers as part of a standard package. Because a cost is associated with each service, the company can control which “free” services they offer and prevent the “giveaways” from making the product unprofitable.

Questions should be asked to determine how the concepts of product and delivery strategy discussed above apply to customizing the leasing of space in office buildings. It needs to be discovered if real estate companies use standardized modules in order to deliver service offerings or whether the offerings available to tenants are developed individually. What is the bare-bones-minimum, core product of office rentals? This question should be answered through gaining an understanding of tenants’ needs. Do all tenants share the same view of what the core product of an office lease represents, or do some tenants include different attributes? When real estate companies gain an understanding of the core product, are they able to deliver only that product? Can attributes which are currently
included as part of the lease package be stripped out and offered as options? Can real
estate companies modularize the various components of the product and service that they
offer, so that they can be assembled to provide the tenant with a customized product?
What supplementary offerings do real estate companies provide to tenants now?

Investment Analysis

Developing learning relationships and customizing a product or service requires an
investment of time and resources. Before undertaking such an investment, an analysis
should be performed to quantify the value of the investment. The value of a learning
relationship will vary from customer to customer. Companies should evaluate a
customer’s lifetime value when deciding with which customers to pursue a relationship.

Two models are available to help analyze the investment of implementing a customization
model. The Service-Profit Chain (Heskett, et.al, 1994) can be used to identify the
incremental contribution to profit from each step in the delivery process. The Value-
Exchange Model (Grant and Schlesinger, 1995) is used to identify customers that have the
highest profit-improvement potential. Both of these models require an intimate sense of
the product, the market, and customers, due to the subjective nature of the values
involved. Herbert Kelleher, CEO of Southwest Airlines, believes that “anyone who looks
at things solely in terms of factors that can easily be quantified is missing the heart of
business, which is people.”42

42 James L. Heskett, Thomas O. Jones, Gary W. Loveman, Earl Sasser Jr., Leonard A. Schlesinger,
The Service-Profit Chain (Heskett, et al., 1994) was developed in response to the need for innovative techniques for measuring the new economics of service. The basis for the Service-Profit Chain is founded in the belief that customer loyalty is a more important determinant of profit than being number one or two in an industry. This is supported by an article by Reichheld and Sasser,\(^43\) in which they estimated that a 5% increase in customer loyalty can produce profit increases from 25% to 85%.

Figure 2-3 graphically depicts a Service-Profit Chain. It indicates the dependence that each function has on the previous function in the chain. Also, like a value-chain, it gives an indication of the value that each function contributes to the end result. Heskett, et. al., describe the flow of the service-profit chain in Figure 2-3:

"The Service-Profit Chain establishes relationships between profitability, customer loyalty, and employee satisfaction, loyalty, and productivity. The links in the chain (which should be regarded as propositions) are as follows: Profit and growth are stimulated primarily by customer loyalty. Loyalty is a direct result of customer satisfaction. Satisfaction is largely influenced by the value of services provided to the customer. Value is created by satisfied, loyal, and productive employees. Employee satisfaction, in turn, results primarily from high-quality support services and policies that enable employees to deliver results to the customers."\(^44\)


The Service-Profit Chain is used to identify how each function contributes to profit. It also can help allocate the cost associated with the investment of building increased customer loyalty. The Service-Profit Chain can be used to measure the "Value Exchange" associated with each customer. Grant and Schlesinger define the Value Exchange as the "relationship between the financial investment a company makes in particular customer relationships and the return that customers generate by the specific way they respond to the company’s offering."[46]

Measuring the Value Exchange begins by determining a customer’s ideal behavior profile. To do this, a company must gain an understanding of all aspects of their relationship with a customer. A company can then calculate that customer’s full potential. The return on investment of each exchange is then determined by weighing the potential of that

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[45] Ibid, pg. 166.
relationship against the total cost of the investment strategy that is necessary to capture that potential. By learning how to maximize Value Exchanges, companies learn how to pursue only those relationships which represent a potential profit increase which justifies the added investment.

Applying the Service-Profit Chain and Value Exchange principles to real estate companies requires an understanding of the system that real estate companies use to deliver their service. Understanding these systems will allow a company to see the cost and profit associated with each function of the system when an investment in a specific relationship is contemplated. To understand how real estate companies systems affect profit, some questions must be asked: Do real estate companies have an explicit system used to deliver their service? How do real estate companies allocate costs associated with the services that they provide? Do real estate companies attempt to place a value on the full potential of a tenant?

**Summary of the Model**

A thorough customization model is designed to accomplish greater profits through optimizing the relationship with tenants. A model should aim to reduce costs by investing in relationships which offer the greatest profit improvement potential. The research indicates that improving the quality of relationships offers a greater potential than randomly trying to capture greater market share. The following model was developed as a compilation of the collective works of the authors cited in this chapter. Information
gained from the literature provides the components necessary to piece together a customization model for the office building management industry. The model is segmented into the three key areas that were identified; Learning Relationships, Approaches to Customization, and Investment Analysis.

*Learning Relationships:* Understanding the tenant's needs involves discovering what the gap is between the current services that are provided and the full potential of services that could be provided to them. Learning relationships will allow management to understand the tenant's needs and how to fill those needs, thereby closing the gap. The gap may consist of services that could be provided to the tenant but currently are not, space demands that are currently supplied to the tenant by other real estate companies, and future space and service demands. This process may be broken down into three main steps which management should aim to achieve in their tenant relationships.

**Step 1. Determine the full potential of a tenant.** Determine how much total business can be gained from a tenant by filling all of their real estate and service needs. Develop a measure of tenant share that is currently provided. Compare the current tenant share to the tenant's full potential. This is the tenant sacrifice gap.\(^{47}\)

**Step 2. Build learning relationships with tenants.** Building a learning relationship is not a one-time event. It requires management to communicate with the tenant, learn from those

\(^{47}\) Ibid.
communications, and act on the knowledge that was gained. In this manner, the learning relationship will continue to grow.\textsuperscript{48}

The ability to collaborate with the tenant and elicit information is crucial. Managers need to develop communication methods that give them useful information which they can factor into an action plan. The most effective means of gaining this information will vary from tenant to tenant. Identifying a contact at the tenant’s company is itself a challenge. There are numerous suggestions for opening a line of communication which will produce beneficial information:\textsuperscript{49 50 51}

1. Spend time with the tenant at their business, learning that business. This is to develop a sense of the problems and difficulties the tenant faces.
2. Arrange informational meetings with the tenant.
3. Create a reporting system so that the tenant can evaluate the service that is provided from management.
4. Involve all levels of the management company in the collection of information.
5. Find out what services the tenant thinks the real estate company can provide.
6. Observe how the tenant uses the space and service

It is up to management to provide insight into the information that is gained. The information that is collected will be useless if management does not know what to look for or how to evaluate the information. Management should be looking for any indication of

\textsuperscript{49} Ibid.
\textsuperscript{51} Francis J. Gouillart and Frederick D. Sturdivant, “Spend a Day in the Life of Your Customers,” Harvard Business Review (January/February 1994)
services that the tenant would find valuable, and that the management can supply profitably. This may include:52 53 54

1. Learn what business problems the tenant faces (other than real estate related).
2. Discover what services the tenant does not want from the real estate company.
3. Look down the distribution chain and find out how the tenant’s customers are affected by the real estate services that the tenant receives.
4. Non-core functions that the tenant performs that could be performed better by the management.
5. Anticipate the tenant’s future business plan.
6. Identify the tenant’s perception of risk.
7. Identify purchasing patterns.
8. Identify parallel needs.

As information is collected, it should be preserved so that it can be called upon in the future. This allows the relationship to grow.

Step 3. After gathering and processing information, management must act on that information. A tenant is likely to continue a learning relationship if they recognize that the relationship results in valuable services being provided. From the knowledge that has been gained about the tenant’s needs, services should be customized to fulfill those needs.

Delivery of customized service should include:55 56

1. Service that exactly meets the tenant’s needs, even if the tenant does not immediately recognize that need. This may include educating the tenant.
2. Service should be refined as feedback is received.
3. Future service demands should be predicted and made available to the tenant.

52 Ibid.
To evaluate the learning relationship piece of the model, some issues need to be addressed: What is the current relationship between tenants and management? Do they have learning relationships and, if not, how can they be developed? Do tenants have sacrifice gaps, and does management attempt to measure these gaps? Is office space and its associated services currently customized for tenants? The results of these questions and their impact on the model are discussed in Chapter Three.

*Approaches to Customization:* Delivering a customized product or service in a cost effective manner requires an understanding of the product, which attributes of the product need to be customized, and the production processes used. These can be described in three steps:

**Step 1.** Plot service attributes on the ACE Matrix to determine which attributes will have the greatest impact on the tenant. The attributes and the tenant’s emotion toward each attribute is gained from information collected through a learning relationship with that tenant. The ACE Matrix will indicate whether an attribute should be added, dropped, or improved.\(^57\)

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Step 2. With an understanding, from the ACE Matrix, of what type of reaction each service generates from the tenant, the customization approach can be categorized. The categories are:  

1. Collaborative - The entire service is customized. Both the service and the way the service is represented is customized.
2. Adaptive - The service is not customized, but it is provided in such a way that the tenant may alter it to fit their needs.
3. Cosmetic - The service is not changed, but its representation is customized to meet the tenant’s needs.
4. Transparent - The service is customized automatically for the tenant. The representation of the service remains unchanged, so the tenant may not realize that the service has changed, they only recognize that they receive what they need.

Step 3. Stripping the wide array of possible services down to the core service or product allows a cost-effective delivery process of customized services. The stripped-down version of the service is called a “naked solution.” Two procedures are then used to customize the service:

1. Create standard service processes for the delivery of optional or additional services.
2. Wrap the naked service with options that the tenant values.

In order to validate the suitability of this piece of the model to the management of office space, information should be collected from both tenants and management. Questions

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need to elicit information about the tenant's perception of the core product and attributes of office space. Do tenants and management agree on what basic, minimum services should be included with a lease? Are optional services available? Do tenants have different levels of expectation about different service offerings? Questions should also address the delivery method of services to tenants. Chapter Three discusses and analyzes the responses to these questions.

*Investment Analysis:* Invest only in relationships and customize services only for those tenants who offer a profitable rate of return on the investment. This is a subjective process but the following two tools may help in the analysis: (1) The Service-Profit Chain may be used to allocate profit and cost to independent functions in the service-delivery process.61 (2) The Value Exchange weighs the potential of a relationship with the tenant against the cost necessary to capture the full potential.62

For this piece of the model additional research is needed to review how real estate companies allocate costs. Are the costs of services that tenants receive distinguished individually, or are the costs for all services rolled up as one fee? Does management understand what value tenants place on individual services? The results of these questions and how they affect the model are included in Chapter Three.

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CHAPTER 3: CURRENT PRACTICE

Introduction

The customization model developed in Chapter Two is based on academic research and the practice of other industries. This chapter tests the application of the model to the management of office buildings. This research involved the customers of office space (tenants) and the management of office buildings. The first section of this chapter describes the research methodology used to interview, compile, and process the data. Next is a section on the findings of the research. The research findings are reported by subheadings which correspond to the appropriate section of the model. An analysis of how the findings fit the model is made. The chapter concludes with a summary of the findings.

Research Methodology

Research consisted of interviews with the tenants and the management of office buildings. The intent of the interviews was to discover if management currently employs customization methods and, if so, how they use them. The interviews were also designed to reveal whether or not the model developed in Chapter Two is applicable to the management of office buildings. Specific examples of tenants' needs arose from the interviews.
Tenants were interviewed first. The tenant interviews were multi-purpose. One focus was to identify what tenants believe management currently does to meet their needs. Another focus was to determine if the application of the model by management would have an affect on the tenants. It was also important to gain specific information from tenants regarding their needs: What do they consider the most basic service? What service is not valuable to them? What needs do they have that real estate management could fill? What is the best method for real estate management to utilize in order to build learning relationships and gain information from tenants?

Seven tenants were interviewed. A diversity of tenants was selected from office buildings managed by Beacon Management, a Boston based real estate company. (Beacon Management is a subsidiary of Beacon Properties. See Exhibit 1 for a more complete description of Beacon Properties.) The mix of tenants interviewed included four small and three large tenants, as well as long-term and recent tenants. All of the tenants were involved in different businesses. (See Exhibit 2 for a compilation of tenants interviewed, with a description of their company.) The intent of using a diversity was to gain a broader range of specific examples of tenants’ needs. This is used to illustrate the type of information that may be gained from learning relationships which are necessary to provide customized service offerings.

The tenant interviews were face-to-face meetings with a member of the tenant’s company who was influential in the process of selecting real estate services. In some cases, that
person was also influential in the management of other aspects of the company's business. The levels of involvement that the interviewees have within their organization were typically dependent on the sizes of the organizations. Tenants were asked questions so that information could be gained to understand the current practice of real estate management and how that practice applies to the model. The questionnaire used to interview tenants is shown in Exhibit 3. The duration of tenant interviews ranged from thirty minutes to one hour. Notes were taken to document the interview.

Management interviews followed the tenant interviews. Four of Beacon Management Company's property managers were interviewed. The property managers who were interviewed, managed the buildings that were occupied by the tenants who were interviewed. Interviews with management focused on determining current practices.

The management interviews were conducted similarly to the tenant interviews. The interviews lasted thirty minutes to one hour face-to-face, and were documented by note taking. The same set of questions that were asked of tenants were also posed to managers to discover if there is a conflict in perception. By conducting management interviews after the tenants, management could be questioned about some of the findings which surfaced in the tenant interviews.
Research Results

Custom or Commodity? Are tenants’ needs being met? To understand this, questions were framed to determine if tenants believe the space they lease and the service they receive is customized to meet their individual needs or is more like a commodity. The physical space of four of the tenants was customized through build-outs when they originally occupied the space. Three of those tenants completed improvements to the space themselves. All tenants replied that the services they receive are standard for the type of building they are in. It was emphasized that, although the services are standard, they are performed with a high level of quality.

Location, cost, and class of building were cited by tenants as the primary differentiators of office space. This indicates that, while the building may be differentiated, the service provided by property management has the characteristics of a commodity. With property management viewed as a commodity, exploring the concept of customization becomes an attractive alternative because it may allow management to compete for tenants on a basis other than cost. Exploring the concept of customization is done by applying the research from the tenant and management interviews to the model from Chapter Two. Learning relationships is the first part of the model and determining the full potential of a tenant is the first step.
Learning Relationships

Determine the Full Potential of a Tenant. Gaining an understanding of what the full potential of a tenant could be is difficult. However, it is important because it provides property managers with information that they need to know in order to determine how to pursue their relationship with a tenant. There are many characteristics of a tenant which may be analyzed to assist property managers in this task. Table 3-1 uses information which was gained from interviewing tenants. It illustrates one characteristic of a tenant (the number of employees) that can provide property managers with insight to a tenant’s potential. The second column shows the number of employees each tenant houses in a property managed by Beacon Management Company. The third column shows how many employees the tenant’s company employs worldwide. The fourth column shows the difference between the firm’s total employees and those that are in office space managed by Beacon. The fourth column is important because it tells the property manager how many employees their company does not provide office space for. Employees of the tenant not occupying space managed by Beacon may be thought of as the potential to be gained through improved relationships with that tenant.
Table 3-1: Share of a Firms Space Needs Captured by Beacon

Using the information from Table 3-1 alone implies that Beacon’s large tenants represent the greatest potential to be gained. This may or may not be true. Other characteristics should also be considered. Another characteristic which could provide valuable insight is the measure of square feet of office space a tenant occupies. Comparing the office space occupied in Beacon-managed-buildings to the total office space that a firm leases would provide additional information to complement Table 3-1. It may support the information in Table 3-1, or it may show that, although a firm has many employees, they may not work in office buildings. Another characteristic of a tenant’s firm is growth opportunities. A tenant may not currently appear to offer a great potential gain, but may do so in the future. A complete analysis of the share of a tenant’s office space demands that has been captured by a property manager is one step towards measuring the “tenant sacrifice gap.”

Also needed to measure the “tenant sacrifice gap” is an understanding of what services the tenant finds valuable. To research this, property managers and tenants were asked two broad questions: How important is real estate and its related services to conducting the tenant’s business? What services do tenants value most and what do they value least?
The answers to these questions help us to understand what the current level of service is that is being provided to tenants. The answers also identify what expectations tenants have of property management. From these discussions, information was gained about what services would represent a value to tenants, if those services were made available.

Questioning both tenants and property managers about the role of real estate and the importance of real estate on how a tenant conducts business revealed some common answers. Both tenants and property managers stated that the primary role real estate plays is providing a place for employees to work and perform their business. Beyond that, the location and prestige that a property offers affects a tenant's business by offering convenient access and credibility to clients. Providing a well-functioning building allows tenants to concentrate on their core business without being distracted by the nuisance of maintaining a building.

There was also agreement about which existing services are valued by tenants. The basic services which are necessary to maintain a clean, comfortable, well-functioning building were identified as valuable services by all of the interviewees. Other services which tenants valued depended on the location of the property. Tenants at Beacon Properties' Wellesley Office Park, a suburban office park, considered landscaping and snow plowing as important basic services. To tenants in Beacon Properties' downtown office buildings, these services were not a factor, but they valued parking.
Other valued services were specific to individual tenants. These included lobby vendors, car wash, locker rooms, and available and responsive property managers. No services were labeled as being least valued.

These results reveal that tenants expect and receive from property managers the basic functions which are necessary to occupy a space and conduct business without the distractions associated with maintaining the property. Beacon Properties is currently implementing a service offering which takes the current level of service one step further by actually affecting how a tenant conducts business. By upgrading the telecommunications systems within buildings, tenants will have the ability to cost-effectively receive high-tech capabilities. Beacon's tenants have been aware of this initiative and universally agree that the service has the potential to impact the way some tenants conduct business, although they may not be affected themselves.

Further conversation with tenants revealed some needs that the current service offerings do not address. Some of these needs fit nicely in the traditional scope of real estate services, while others are outside the box. Examples of these needs are provided to illustrate tenant sacrifice gaps that exist. These represent part of the difference between the current level and the full potential of developing tenant relationships.

Table 3-2 is a compilation of the responses that tenants had about specific services. The first column lists the services that were discussed in interviews with tenants. Some of the
services are currently available to them through either Beacon Management or vendors that Beacon has at a building, others are currently not available. The tenants who were interviewed are listed across the top of the table. The first of the two columns below each tenant indicates whether or not that tenant desires the services listed. If a tenant desires a particular service, then “1” was placed in the corresponding cell, otherwise “0” was placed in the cell. The second of these columns indicates whether or not that service was available to the tenant. When the service was available, “1” was placed in the corresponding cell, otherwise “0” was placed in the cell. The differences, or “gaps” are highlighted by the shaded areas in Table 3-2. By totaling each column, a score is established of how many services the tenant wants and how many they receive. The difference between the scores represents another part of the “tenant sacrifice gap.” The last row indicates how large service gaps are as a percentage of the total list of services desired by that tenant.
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<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

| Service Gap Percentage        | 0% | 16% | 14% | 16% | 34% | 43% | 38% |

1 = Yes, 0 = No

* The service is available, but the tenant is unaware of it.

Table 3-2. The Gap Between What Tenants Want vs. What Is Available
The results shown in the “Difference” row of Table 3-2 indicate that all but one tenant experienced a gap in the services that are available versus the services they want. The “Service Gap Percentage” row of Table 3-2 shows a large range of service gaps as a percentage of the total list of services. The percentages range from 0% to 75% and the average is 42%. These large percentages should be a “red flag” to property managers that tenant sacrifice gaps exist. These service gaps were discovered in short interviews with the tenants. These services are shown just to illustrate that gaps do exist and, as only a sample of what service gaps may be discovered, they are certainly not a comprehensive list. Table 3-2 offers a systematic method of measuring and analyzing services that contribute to tenant sacrifice gaps. The number of possible custom services is limited only by the imagination. It is the role of the property manager to identify the missing services which create tenant sacrifice gaps, and determine whether or not offering that service will profitably enhance the tenant-manager relationship.

One piece of information from Table 3-2 particularly highlights a flaw in the tenant-manager relationship. Two tenants expressed interest in a service that was available, but they were unaware of it. Communicating to the tenant what services are available should be a minimum requirement of developing learning relationships. This draws into question the statements made by tenants that their relationship is ‘good enough’ and that they do not want to make an additional effort to improve it. Perhaps tenants would feel differently
about developing learning relationships if they were able to recognize the value that learning relationships could create for them.

Table 3-2 shows that the services which are wanted the most, but are unavailable, are not basic services. Two services which stand out are: available conference space (six out of seven tenants want it) and client referrals (five out of seven tenants want it). These services go beyond basic building services and actually impact the way in which a tenant conducts its business. Discovering these needs requires a learning relationship.

Additional conference space is a service that was discovered in the first tenant interview. The tenant cited conference space as a valuable service available to them at another location that they occupy. That building offers common conference space which is available to all tenants of the building on an as-needed basis. The tenants pay only for the time they occupy it and are able to reduce the total square footage of the space they lease, because they do not need to set aside space for conference rooms. With the savings from the reduced area, the tenant is able to pay more per square foot for the space they do lease. The common conference space is usually superior to what the tenant would ordinarily have, because special technological capabilities are provided with it. Following this interview, all other tenants were questioned if they felt this option provided value. One of Beacon’s property managers at a downtown office tower understood the tenant’s desire for this option, but responded that, in effect, it already is available in his building. One of the building tenants is HQ whose business is providing short term-office and
conference space. A conflict would arise if Beacon offered conference space within the building because it would be competing with that a tenant. However, this conflict could be avoided by promoting HQ’s service among the other tenants within the building. Thus, the manager could satisfy the space demands of his other tenants while also providing a referral service for HQ — in itself another added value.

“Client referrals” was another service that received widespread approval from the tenants interviewed. Tenants repeatedly cited gaining new clients and customers as a challenge faced by their business. Beacon’s broad network of tenants are also potential clients to each other. Tenants commented that they would find it valuable if Beacon used its tenant relationship to provide a point of contact, introduction, or referrals for potential clients. Property managers responded positively to this service, although they were not sure how to implement it. One property manager was aware of another property management company that had employed a version of a referral service. Cummings Properties of Woburn, Massachusetts produces a directory of the tenants in all of its properties, categorized by business function.

Other potential service offerings arose from conversations with individual tenants about their business concerns. These potential services include: Beacon purchasing tenants’ products or services when applicable; providing administrative functions, such as copy centers and secretarial pools; storage space; employee shuttles; and locating additional space for tenants as they expand. An architectural firm that is a tenant of Beacon
responded that, because of the relationship between architecture, development, and property management, Beacon may be able to offer many valuable services. These include assistance with public agencies, such as the Boston Building Department, market data, and cost estimating. Beacon managers pointed out that some buildings do provide some of these services. Copy centers are sometimes offered through lobby vendors; at least one Beacon office provided storage space for its tenants; and shuttle service was offered at a suburban office park, but received very little use. This may indicate that tenants are unaware of all of the optional services available with their leased space.

Observation of tenants’ business and the functions that occur in the office lead to further potential services. Smaller tenants do not benefit from the purchasing power that larger tenants do. However, one property manager of an office building suggested that tenants could gain economies of scale through the combined purchasing power of the many tenants that Beacon Properties serves. It was also observed that the large tenants, who leased over 65,000 square feet of office space, had a facilities management staff. The function served by this department is clearly not the core business of those firms. However, facilities and asset management is an expertise of Beacon Properties.

These examples of tenant sacrifice gaps illustrate that there is a potential to provide additional services in order to satisfy tenants’ needs and desires. Identifying that there is a gap between services offered and services desired is just part of the model needed to efficiently customize office leases. Managers can only discover what the gap is through
learning relationships with tenants, then they need a delivery strategy for customized service, and an analysis to determine the most profitable relationships to pursue.

*Understanding Tenants' Needs:* Developing learning relationships is a key aspect of the customization model. Learning relationships become smarter over time and may provide property management firms a competitive advantage, making it increasingly difficult for tenants to be lured away by competitors. To research how learning relationships may be implemented by property managers, tenants and managers were asked to describe the relationship and communication methods that they have with each other.

Tenant interviews revealed a great degree of similarity in the perception that tenants have of their relationship with management. In every case, tenants responded that they had an open line of communication with property managers. Tenants contact the management regularly, either daily or many times a day, on an as-needed basis when questions or problems occur. While telephone communication with management was common to all tenants, some very large tenants utilized additional methods of communication. Single-occupant tenants in the Wellesley Office Park said they have scheduled, monthly meetings with the property management. The Operations Manager of AIG (a large insurance company and a large tenant in one of Beacons downtown office towers) reported that his relationship included occasional lunch and golf outings.
All tenants were also in agreement that they considered the relationship with Beacon Management to be good. The only problems in the relationship occurred during transition periods when there was either turnover of management personnel, a tenant was new to the property, or Beacon had recently acquired a property. Tenants attributed this to a learning curve that occurred as tenants and management establish a new relationship. Two tenants at the Wellesley Office Park, who had regularly-scheduled monthly meetings with the property management, agreed that the meetings were worth their time and effort to maintain their relationships with management. Both of the interviewees were facilities managers whose jobs are directly related to the functions of the building. These people viewed the meetings as a means to make their jobs easier; however, they did not believe it would affect the core business operations of their companies. The purpose of the meetings was to communicate on the status of maintenance. They did not feel that it was necessary to make an additional effort to improve relationships beyond the status quo. All other tenants responded that their relationship was good, and that it was not necessary to make an effort to improve it. An analysis of Table 3-2 appears to contradict the tenants’ position that their relationships are good enough. All but one tenant had desires for services that are unavailable. In order for tenants’ desires to be fulfilled, learning relationships are required.

Among all tenants, the purpose of communicating with property management was to inform management of problems, check on the status of previously reported problems, and share information about upcoming events. The nature of the issues about which they
communicate are building-related items, such as security, maintenance, and cleaning. Research from tenants alone seems to indicate that communication is limited to custodial topics and does not contribute to learning new information about the tenant’s business so that customized services that are valued by the tenant can be provided. However, management interviews reveal more sophisticated attempts to build relationships.

According to the property managers interviewed, there is a greater effort made to understand tenants than the tenants realize. Property managers said that tenants believe the relationship is “good enough” and that tenants do not want to “waste time” building a stronger relationship. One property manager referred to the act of building tenant relationships as an art, rather than a science. The techniques that are employed vary depending on the personality of the tenant. Managers should respond to a tenant’s personality in a manner that makes the tenant feel comfortable. By slowly developing relationships in a non-obtrusive manner, property managers are able to overcome the tenant’s skepticism and build trust. However, the degree to which property managers pursue a stronger relationship, the information they seek to gain from the relationship, and how they use the information varied greatly.

There were some methods of building relationships that were common to all of the property managers interviewed. This may be the result of selecting only Beacon Properties’ property managers for interviews. All property managers had an open line of communication with tenants. Memo’s are a common form of communication. Phone calls
are made, when necessary, to inform tenants of upcoming building events or to speak about building problems. The property managers provided examples of the subtle and non-obtrusive techniques that they use to gain information about tenants. Phone communications are logged so that the property management has a record of the communication. It is not common among the property managers, however, to analyze the data stored in the phone logs so that useful information may be disseminated and acted upon. Properly reviewing the data from phone records could provide property managers with a tool to recognize trends and preferences among tenants so that tenant needs may be anticipated. The property managers also use staff employees to gain information. The staff make reports of work orders and unusual requests and these reports are kept on record. Like the phone logs, these records are rarely utilized to produce useful information. However, some of the managers do utilize the knowledge of the staff in a more creative method. One manager in a downtown office tower learned from the parking valets that a senior manager of a large tenant typically left the building at four o’clock every day. The property manager used this information in a simple, but effective way. He instructed the valets to have that tenant’s car waiting for him every day at that time. Property managers may also use the staff’s knowledge to keep informed of who’s who in the building. In this manner, they may discover and meet the influential people in a tenant’s organization, rather than just knowing their point of contact.

In addition to the relationship-building methods that were common to all of Beacon’s property managers, each manager also employed their own style of communication. One
manager stated that building relationships is an everyday thing that takes time to occur. He believes that tenants do not want to waste time in formal meetings with property managers. He uses a non-imposing method of spending time in the public areas of the building and engages in frequent, casual conversation with tenants. As tenants become more familiar with him, the acquaintanceship may become more social, and he is able to learn more about the tenant. Another manager occasionally drops in on tenants. When doing so, he uses an excuse for visiting them, such as following up on the progress of a problem the tenant had reported. The real purpose is to gain exposure to the tenant. Other managers find it appropriate to schedule formal meetings with their tenants. In fact, from the tenant interviews, it was discovered that these property managers' tenants welcome the meetings. Some of the property managers also make an effort to understand tenant's business problems by reading industry literature related to the tenant's business. Two managers commented that they had sponsored social events, like ice cream parties, for their tenants. Although they believe the events foster goodwill between themselves and the tenants, they were unsure that the events added value to their relationships.

Property managers can use existing relationships as the infrastructure to build learning relationships. The key is to gain information from each interaction, rather than merely responding to each request. Because many of property management's interactions with tenants involve security, cleaning, and maintenance issues, property management companies could employ techniques similar to those that the Ritz Carlton uses to build
learning relationships. The reports generated by front-line workers who respond to tenants' problems such as security personnel, mechanics, and janitors can be of greater value than merely documenting work that was performed. These notes can then be stored in a file on the tenant so that management may use them to understand a tenant's preferences and anticipate future needs.

Educating tenants about Beacon Properties may also prove to be a source of improved tenant relationships. One tenant commented that, if he knew what Beacon's capabilities were outside of property management, he would be more inclined to request additional services.

It is clear that there are differences in the way that tenants and management view their relationship, as Table 3-3 illustrates. The issues of their relationship are listed in the first column and the tenant's and property manager's position on the issues are listed in the second and third columns. The fourth column lists the positions that tenants and property managers have in common.

---

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<th>Issue</th>
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<th>Property Managers</th>
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<td>Always want improvement</td>
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<tr>
<td></td>
<td>Not worth effort to improve</td>
<td>The effort is worth it</td>
<td></td>
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<td>Examples of Communication Methods:</td>
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<td>Phone calls as necessary</td>
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<td></td>
<td>Gain info from staff</td>
<td>Memo's</td>
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<td>Keep work records</td>
<td>Some meetings</td>
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<td>Read relevant literature</td>
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<td>Topic of communication</td>
<td>Building &amp; Maint. issues</td>
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</tr>
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Table 3-3: Property Manager’s and Tenant’s Perception of Their Relationship

As Table 3-3 shows, tenants perceive their relationship with management to be good enough and do not want to make any additional effort to improve it. Management, on the other hand, considers improving the relationship with tenants as one of its primary concerns. Tenants mentioned only phone calls, memo’s, and occasional meetings as the methods of communicating their needs to management. Property managers added to those methods: learning from the staff; reading industry specific literature; keeping phone and work logs; and, developing social relationships as techniques for understanding tenants’ needs. If it is management’s intent to build the relationship in a subtle manner, so that they do not impose on the tenants, then it appears that they are being too subtle. The data in Table 3-2 indicates that there are needs that tenants have, about which management has been unable to learn from subtle relationships. It is important that, while they subtly build their relationship, they also gain the information and knowledge necessary to offer the tenants valuable custom services, so that the relationship becomes stronger. Property managers need to translate their understanding of tenants’ needs into
services that tenants recognize as adding value to their businesses. If this is done, then tenants may be more inclined to want a better relationship.

Developing learning relationships is a key component of the customization model. It allows management to discover tenant sacrifice gaps and gives them the information necessary to close the gap. The next important step in the model is developing an approach to customization so that services may be provided efficiently and profitably.

**Approaches to Customization**

Understanding tenants’ needs and learning what services can be offered is the first step towards providing customized services that meet an individual tenant’s needs. To efficiently customize services, a delivery process needs to be addressed. Without effective delivery of customized services, customization can quickly deteriorate into a management nightmare. The second part of the model that was developed in Chapter 2, “Approaches to Customization,” deals with the delivery of customized services. Tenant and property management interviews were conducted to collect data to understand how this portion of the model may be applied.

*Categorizing Service Offerings:* Applying the ACE Matrix requires an understanding of how the attributes of office space affect each tenant. Table 3-4 plots the level of energy that each service generates from each tenant who stated a desire for that particular service. The first column lists the services that were reported in Table 3-2. These services are
separated into those which Beacon Management currently offers and those that are not offered. The services which are not available are listed as potential Beacon services because their tenants referred to them. The columns titled "Basic," "Discriminator," and "Energizer" come from the column headings of the ACE Matrix. These headings reflect the energy level that a service generates in a tenant. The cells in these columns are filled in with the number of tenants who felt that level of energy was generated by the corresponding service.

Tenants were asked which attributes of office space they consider to be the minimum necessary requirements to lease office space. The attributes given by tenants in response to this question fall in the "Basic" column in the matrix. Rating services as "Discriminators" or "Energizers" was more subjective. Tenants were not asked to categorize services as one or the other. Rather, the distinction of a service as a "Discriminator" or an "Energizer" was based upon the tenants' reactions.
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<th>Energizer</th>
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<td>Score of current services</td>
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</tr>
<tr>
<td>Consultant Referrals</td>
<td>2</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Admin. Functions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Messenger</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Manager as Client</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Score of potential services</td>
<td>0</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Percentage of score of potential</td>
<td>55%</td>
<td>45%</td>
<td></td>
</tr>
</tbody>
</table>

* The number in each column represents the number of tenants who attributed that level to the service.

** Some services are not available at all Beacon locations.

Table 3-4: Tenant Ratings of Services

Table 3-4 shows that, among the basic services listed by tenants, security, cleaning, and building maintenance were common to all tenants. Additionally, at a suburban office park, all tenants included landscaping, parking, and snow plowing as basic services. These
services were also included by all property managers as basic. The manner in which these services are performed determines whether tenants view them as Positive, Negative, or Neutral. In the case of the tenants interviewed, the services were viewed as positives because Beacon Management delivered them with a high degree of quality. Therefore, these services fall in the “Nonnegotiable” cell of the ACE Matrix. The services which are rated as “Discriminators” and “Energizers” are all considered positive by the tenants who mentioned them. This puts these services in the “Differentiator” and “Exciter” cells respectively. Tenants did not identify any service as not important to them. Those services would fall in the “Dissatisfier” or “Enrager” cells of the matrix, if they were reported.

Plotting the service attributes in this way is useful in determining what action to take towards the delivery of that service. The interviews revealed that tenants do have different expectations about various services, and understanding these expectations is necessary to be able to plot the matrix.

Analyzing Table 3-4 provides additional information regarding learning relationships, which further supports the analysis of Table 3-2. In Table 3-3, it was shown that tenants believed that their relationship with management is good enough, and that no additional effort should be made to improve it. Yet from Table 3-4, 61% of the score of services that are rated as “Discriminator” and “Energizer” are services that are not currently available. Although tenants state that they do not want to make an effort at improving
relationships, the services that they desire requires an improved, learning relationship. Tenants may need to actually experience the benefit of the services that result from a learning relationship before they entertain the notion of improving relationships.

Of the score of current services available in Table 3-4, the majority (70%) is attributed to Basic services. Only 30% of the score of current services reflect services which can differentiate the office space. The score of potential services not currently available demonstrates the disparity between services that are available and those that are not. 100% of the score for potential services was for services that can differentiate the office space. "Discriminator" services scored 55% and "Energizer" services scored 45%. This indicates that services which contribute to the tenant sacrifice gap may offer greater value to tenants than services which are already provided. Therefore, filling the tenant sacrifice gap will create a stronger relationship than merely continuing to offer basic services.

The second step in the approach to customization is understanding what category of customization (Collaborative, Adaptive, Cosmetic, or Transparent) is appropriate for the service being offered. Collaborative customization involves dialogue between management and the tenant, and both the service and the representation of the service are customized. Adaptive customization offers a standard service which tenants are capable of customizing themselves. Cosmetic customization provides a standard service to the tenant, but the representation of the service is customized. Transparent customization provides each tenant with custom services without letting them know explicitly that the
service has been customized for them. Table 3-5 was created to show examples of how specific services could be categorized. The first column lists customized services. Therefore, it excludes the basic services that are included in all leases. The column separates the services into two groups, current services and potential services. An "X" is placed in the cell corresponding to the category that is appropriate for that type of custom service. It is not uncommon for a custom service to be developed using more than one of the categories of customization.

<table>
<thead>
<tr>
<th>Customized Service</th>
<th>Collaborative</th>
<th>Adaptive</th>
<th>Cosmestic</th>
<th>Transparent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Beacon Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valet has car ready</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Telecommunication Capabilities</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Storage Space</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Car Wash</td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Lobby Vendors</td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Locker Rooms</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Potential Beacon Services</td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Conference Space</td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Client Referrals</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shuttle</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Consultant Referrals</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Admin. Functions</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Messenger</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Manager as Client</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 3-5: Services Categorized by the Approach to Customization

In table 3-5, one approach to customization is not superior to another; rather, each approach is appropriate for the specific custom service being considered. For example, service offerings that may have an impact on the way a tenant conducts its business, such
as client referrals, would require collaboration with a tenant. Offerings such as lobby vendors, which the tenant believes are beneficial, but not necessarily a service provided by the management, may be considered transparent.

An analysis of Table 3-5 does reveal an interesting comparison between current and potential service offerings which is relevant to learning relationships. Transparent customization is appropriate for 83% of the current offerings. None of the current offerings are in the collaborative category. Whereas for 57% of the potential offerings, collaborative customization is appropriate. The transparent current offerings are a reflection of the existing relationships between tenant and management. Transparent customization provides unique services without letting the user know it has been customized for them. This form of customization is appropriate when the tenant's needs can be easily deduced and the tenant does not want to state its needs repeatedly. Conversely, the collaborative customization (which is necessary to provide tenants with potential services that they stated are valuable to them) requires a commitment to learning relationships by both the tenant and the property manager. This reinforces the analysis that was made from Table 3-4 that, although tenants state that they do not want to make an effort to improve the relationship, the services that they desire indicate a need to develop learning relationships. Additionally, this further supports the notion that tenants may be relied upon for information, but it is up to the property manager to supply the insight to translate that information into valuable services.
Service Delivery Process: Using the ACE Matrix and the categories of customization as tools for understanding the impact a potential service will have on tenants allows property managers to establish a delivery process to efficiently offer those services. Property managers may be able to create naked solutions, which are the minimum basic services that all tenants require, and wrap those services with optional custom services. Property managers and tenants were questioned whether the services that are currently available are offered in this way. All property managers and tenants responded that the basic services are included as part of the total lease package. Generally, there is not an option of leasing the space and choosing not to have security, cleaning, or maintenance included. It is evident, however, that other services are offered separately and tenants may elect to use or not use those services. Additional cleaning services and parking spaces were two common examples. Tenants in single-tenant buildings in office parks often maintained the systems, which they own within the building, such as back up generators. Those tenants were able to add the maintenance of those systems to the property management’s duties. These examples indicate that the process property managers use to deliver services is in sync with the naked solutions method described in the model. Although tenants are not able to lease raw space, the basic services that are included are considered by tenants and property managers to be basic and part of the core product. Property managers generally believe that some services, like parking and staffing the building for off-hours operations, could be stripped out, but that the basic services should not. One reason for this is to ensure at least a minimum, uniform level of service throughout the property.
Investment Analysis

Merely understanding tenants' needs and learning which services will fill their needs does not guarantee that the offering will be a profitable investment. The model from Chapter Two dictates that only those relationships which offer a profitable rate of return on the investment should be undertaken. Quantifying costs and returns is highly subjective, but two steps may be taken to help quantify the investment.

The Service-Profit Chain is a tool which can help allocate costs and profits to the various processes involved. The chain indicates that profitability stems from internal service quality. Interviews with tenants confirmed that quality delivery of basic services is recognized and valued. Most tenants included availability of property management personnel and quick response to maintenance problems as additional service offerings. Although available property management personnel and timely response to problems does not actually increase the services tenants receive, they do affect the quality of the existing service. These responses about the value of basic services do echoes the links in the Service-Profit Chain. Tenants do not place value on basic services alone, those are expected as a minimum, but tenants do place value on the quality of the basic services. From tenants' statements, the quality of basic services is derived from the availability of personnel and quick response time.

Figures 3-1 and 3-2 are used to demonstrate how the tenants' statements about quality of service relate to the Service-Profit Chain. The Service-Profit Chain from Figure 2-3 in
Chapter Two has been recreated here as Figure 3-1. In Figure 3-1, the tenants' statements relate to the links of employee productivity, which leads to external service value, to customer satisfaction, to customer loyalty, to profitability. Figure 3-2 isolates these links of the chain and replaces the generic descriptions with terms specific to the tenant-management relationship. This illustrates the Service-Profit Chain as it is perceived from tenants' statements about quality delivery of basic services. Further research is necessary to complete the links in the chain of Figure 3-2. However, the fact that the data supports these links in the chain also lends credibility that the links in the chain of Figure 3-1 are representative for property management.

Operating Strategy and Service Delivery System

![Diagram]

Figure 3-1: The Links in the Service-Profit Chain

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Figure 3-2: The Links in the Service-Profit Chain for Basic Services

With evidence to support the Service-Profit Chain, property managers may use it to assess the relationship between making an investment in a particular link in the chain, with the profit that may be realized from it. An example may be shown by using the chain in Figure 3-2. Management may consider making an investment to improve the quality of basic services to tenants. If the investment is made by making management personnel more available, then it will impact every link in the chain. If management chose to purchase machinery that improved cleaning services, then it would only impact the links from “quality delivery of basic services” to “tenant value,” unless it also freed up management time, so that they could be more available.

The Value Exchange weighs the potential of a relationship against the cost of the investment necessary to capture the full potential. An understanding of the cost and the value of services would help analyze this relationship. Management and tenants were asked if the cost to the tenant of individual services can be distinguished from the total cost of leasing space. Both groups answered that the costs to the tenant for basic
services, such as cleaning, maintenance, and security, are included as part of the total cost of the lease and are not broken down separately. The costs of additional services are distinguished, such as the cost per parking space. When the cost is distinguished, it provides useful information to the property manager. It provides them with the value that a tenant places on such a service. This information may then be used to analyze the relationship between the cost of offering the service and the rate of return generated by it.

Even with these tools to help property managers quantify the value of an investment, property managers still face a formidable challenge. The full value may not be represented by the price a tenant is willing to pay for individual services. The residual value may be the most important aspect to consider and the most difficult to gauge. The residual value may include the long-term effect gained by offering tenants services that they value. This may include renewing a tenant’s lease, easier lease negotiations, or capturing more of the tenant company’s space demands.

**Summary**

Interviews with tenants and property managers were conducted to discover the current practice of management as it relates to the model developed in Chapter Two and to support the model. The research focused on the three keys areas of the model: “Learning Relationships,” “Approaches to Customization,” and “Investment Analysis.” The information gained from the interviews does provide valuable insight. It demonstrates the
current practice being employed by a property management firm and the perception that tenants have of property manager’s role in providing services to them. This information may be applied to the model to determine its appropriateness.

From tenant interviews, it was revealed that tenants do have sacrifice gaps. There are many characteristics to consider in order to measure a tenant’s sacrifice gap. One characteristic is the tenant’s overall demand for office space. Services that the tenant desires, but that are unavailable, are also a source of the sacrifice gap. Some of these gaps are property related and others impact the way in which a tenant conducts its business. Tools are available to systematically analyze the tenant’s sacrifice gap, so that an appropriate strategy can be devised to close the gap.

Property managers have the communication infrastructure in place, but do not use it to build a learning relationship. Tenants claim that they are not interested in making the effort necessary to improve relationships. However, the research reveals that a learning relationship is necessary to discover the type of services that tenants desire, and to ensure that tenants know what services are available. Relationship-building methods need to be addressed to turn the current relationships into learning relationships. The model offers suggestions that may be employed to build learning relationships. From learning relationships, property managers will be able to offer services to fill the tenant’s sacrifice gaps.
Learning relationships will give property managers the information they need to establish an approach to customization. Based upon tenants' preferences to specific offerings, managers will be able use the ACE Matrix as a tool to determine what action to take towards an attribute. It is not evident from the research that Beacon's property managers use any tool to assess the action which should be taken towards an attribute. Without learning relationships, the application of the ACE Matrix would be misused and ineffective.

If it is determined that an attribute is to be offered, then it may be categorized as either collaborative, adaptive, cosmetic, transparent, or a combination. Then property managers may construct naked solutions for the tenants. The research showed that the basic service they expect is currently provided to them as a naked solution. The minimum services of space, security, cleaning, and maintenance are provided as a naked solution. They then have the option of adding additional services, such as parking and extra cleaning. This delivery procedure can also be applied to other optional services that tenants value.

The data provided by the research supports the way the Service-Profit Chain allocates profit. This is a helpful tool in analyzing the value of a relationship or service investment. The data also shows that most costs to the tenant for specific services are not distinguished from the total cost of all services. This presents a challenge when trying to quantify the value of an investment. The biggest challenge, though, is in estimating the residual, long-term value created by offering custom services to a tenant. Because
evaluating the value of an investment in tenant relationships is so subjective by nature, it underscores the importance of building learning relationships.
CHAPTER 4: SUMMARY

The Goal: The goal of this thesis is to develop a model for adding value to office buildings through improved tenant relationships. A model was developed through a review of current customer relationship models that are being employed by other industries. The model was then tested for its application to the management of office buildings by evaluating representative a real estate organization to establish its current practice of tenant relations.

The research resulted in a model for customization of property management services. Property managers of office buildings may employ this model to deliver customized services to their tenants. The model has three main parts: the learning relationship, the approach to customization, and the investment analysis.

Research consisted of interviewing tenants and property managers of office buildings owned by Beacon Properties. The purpose of this thesis was not to evaluate that specific company, but to explore the use of a model that may be applied throughout the office market industry. The small number of interviews performed would not serve adequately for an analysis of that company.

Research Results: Analysis of the research findings provides useful information about the model. The current service provided by property management has the characteristics of a commodity. The services that are offered do not differentiate one office building from
another, and the deciding factor for many tenants comes down to cost. Implementing the customization model offers property managers a strategy for competing on factors other than cost.

Even in short interviews with tenants, enormous tenant sacrifice gaps can be detected. The gaps include a tenant's demand for office space that the management company has not captured, as well as a tenant's desire for services that are not available. These gaps are not currently measured by property managers, but there are tools available for systematically measuring and analyzing the tenant sacrifice gap. Learning relationships are necessary to successfully discover what services may be customized to fill the tenant's sacrifice gap. Some examples of custom services were provided in the thesis, but the extent of possible custom services is limitless. It is the task of the property manager to uncover a tenant's needs, mold a service which solves those needs, and select which services to provide based on an acceptable rate of return on the investment.

Tenants say that they enjoy a good relationship with property managers and do not want to make an additional effort to improve the relationship. From the description tenants and property managers give of their current relationship, it is evident that learning relationships have not been achieved. Only limited attempts have been made to develop learning relationships. Analysis of the data shows that even basic information is sometimes not communicated well. Tenants are not aware that services they desire are already available. The types of services which are currently provided reflect this relationship. The optional
or custom services that tenants now receive are examples of transparent customization, which does not require direct dialogue between tenant and property manager. The analysis shows, however, that a majority of the services that tenants want require collaborative customization -- which requires learning relationships. Although tenants state that they do not want to make an effort at improving the relationship, the services they desire necessitate it.

In order for tenants to want to make an effort at learning relationships, they need to realize a benefit from it. Property managers may need to convince tenants that the effort to develop learning relationships is worthwhile, by translating the information that they gain about tenants into services the tenants value. When tenants recognize the value they gain from learning relationships, they may welcome them. The fact that tenants do not want to improve their relationship, yet want services that can only be delivered from an improved relationship, highlights the notion that tenants should be relied on for information, but not for insight.

Using the ACE Matrix as an analysis tool provided insight to the value of custom services. Plotting the current services revealed that a majority of current services are basic, and are the minimum expectations of tenants. These services do not differentiate the services of one property manager from another. When the potential services that tenants want were plotted, they all turned out to be either “discriminators” or “energizers,” which can swing a tenant’s leasing decision. This suggests that the services which result from the
customization model may offer greater value than services which are currently provided. In this case, customization may indeed provide a strategic advantage to property management firms.

Future Research: The research that was conducted for this thesis has led to some valuable input for the application of the customization model to property management. Further research is needed, however, to complete the model. The findings from this research should be tested by increasing the number of interviewees and selecting them from a broader range of companies. This will either verify the current findings by showing that Beacon Management is representative of the industry, or it will show that there is diversity within the industry. As well as broadening the range of companies, the research may also be complemented by including other real estate sectors. Are the methods of tenant relationships common among the various sectors of real estate? If this customization model offers a potential for improving the financial performance of office buildings, will it also work for industrial, retail, or residential?

The investment analysis portion of this customization model needs deeper research. How may the future benefits of an improved relationship be quantified so that a financial analysis can be performed? What are the costs of developing learning relationships? How should the costs of custom services be collected from the tenant? A necessary area of research would look into the organizational requirements of offering customized services. Research should be conducted to discover if the current organizational structure of
property management firms is appropriate for creating learning relationships and custom service.

**Conclusion:** Real estate firms are ideally suited to implement the customization model. Indeed, some already do so, to a limited extent, although they may not be aware of it. They have standard or modular components (space within buildings) which, through tenant improvements, are outfitted to the specific needs of the tenant. To fully utilize this model, real estate companies need to make an express effort to include customization in all functions that are associated with leasing office space. Not only should the space be customized, but also the lease, management, services, and other offerings. This thesis provided a small sample of unavailable services that contribute to tenant sacrifice gaps. The intent of discussing specific examples was not to provide a laundry list of tenants needs. The examples were included merely to demonstrate that service gaps do exist and that there are tools available to help analyze and fill them.

Tenants' improvements are a form of customization which some real estate companies practice. Although this is customization, it does not differentiate one company from another because it is a common practice. Customization that does not differentiate a company does not provide a strategic advantage. A strategic advantage can only be obtained by customization which resulted from systematically processing the information gained through learning relationships with tenants.
Exhibit 1: Description of Beacon Properties

Beacon Properties is a publicly traded REIT based in Boston, Massachusetts, which has been in business for fifty years. Beacon became a public company with an IPO in 1994. The company now has a total market capitalization of $2.7 billion. It is the eighth largest publicly-traded REIT out of more than two hundred in the United States.

The company now owns 104 buildings, totaling 15.8 million square feet of office space. Over 1200 tenants occupy space in Beacon offices. Beacon’s properties are located in six regions of the U.S., including: Atlanta, Boston, Los Angeles, San Francisco, and Washington, D.C. The company originated in Boston and the largest percentage of its properties are still located there. Thirty-nine percent of its total portfolio is located in Boston.

Beacon Properties specializes in ownership, management, and development of office properties. Beacon Management Company is a wholly-owned subsidiary of Beacon Properties. Beacon Management performs the property management responsibilities for the office buildings that are owned by Beacon Properties.

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65 Beacon Properties Corporation 1996 Annual Report
Exhibit 2: Compilation of Tenants Interviewed*

Company: American International Companies (AIG)
Interviewee: James Carlson, Regional Operations Manager
Location: 101 Federal St., Boston, MA
Type of Company: Property and casualty insurance
Date: Monday July 7, 1997
Company info: AIG is the world’s largest property and casualty insurer. They employ 35,000 employees worldwide and lease 8 million SF of office space worldwide. At 101 Federal St., they lease 70,000 SF which houses approximately 250 employees. AIG also owns all or a portion of many other companies in other industries, although they do not often stray far from insurance. AIG is not renewing their lease at 101 Federal St. because they need additional space that is not available at that location.

Company: Madan and Madan P.C.
Interviewee: John Saunders, Exec. Director Administration and Operations
Location: 175 Federal St., 13th Fl., Boston, MA
Type of Company: Law firm
Date: Wednesday July 9, 1997
Company info: Madan and Madan is a small, local law firm. This is its only office. They employ a total of 14 employees, 7 of which are lawyers and 7 are support staff. They lease 10,000 SF, but sublease out approximately 3000 SF. No growth is planned for the firm.

Company: Watson Wyatt & Company
Interviewee: Carole Falcone, Telecommunications and Facilities Manager
Location: 80 Williams St., Wellesley Office Park, Wellesley, MA
Type of Company: Actuarial and full service human resources consulting firm
Date: Wednesday July 9, 1997
Company info: The firm has 75 offices in the U.S. and 3500 U.S. employees. There are 5000 employees worldwide. The company occupies an entire building of 71,000 SF at the Wellesley Office Park where they house 250 employees. They recently leased additional office space for 150 employees in Marlborough, MA. because there was no space available for them to expand at the Wellesley Office Park.

Company: Citizens Energy Corporation
Interviewee: Joe Moran, Treasurer
Location: Russia Wharf, 530 Atlantic Ave, 5th Fl., Boston, MA
Type of Company: Non-profit company which is an umbrella company for many other companies, some of which are non-profit and some are for-profit. There is a heavy emphasis on energy, fuel, and resources companies.
Date: Thursday July 10, 1997
Company info: The entire company, which employs 50, is housed in 17,000 SF at this location. They have been at this location since 1983. Their space has expanded since they first became a tenant.
Exhibit 2: Compilation of Tenants Interviewed (Continued)

Company: Anderson Consulting
Interviewee: Peter McAulley, Facilities Manager
Location: 100 Williams St., Wellesley Office Park, Wellesley, MA
Type of Company: Business consultants
Date: Friday July 11, 1997
Company info: The company occupies 65,000 SF and houses 800 employees at this location. Internationally, they employ 45,000 employees. They moved into this building in February 1997. The hoteling concept is used since many of the employees are off-site most of the time. They anticipate that this location will be able to house 1200 employees as they grow. Locally, they also have an office in downtown Boston.

Company: Book Manufacturers Institute
Interviewee: Stephen Snyder, Executive Vice President
Location: 65 Williams St., Wellesley, MA
Type of Company: Trade association representing book manufacturers
Date: Tuesday July 15, 1997
Company info: This is the association’s only location. They occupy 1550 SF and have two full-time employees and two part-time employees. They have been in the Wellesley Office Park for five years. They have been relocated three times within the park. They have been in existence for 60 years.

Company: Robert Neiley Architects
Interviewee: Robert Neiley, Founder/ Principle
Location: Russia Wharf, 286 Congress St., Boston, MA
Type of Company: Small architecture firm specializing in historic preservation
Date: Tuesday July 16, 1997
Company info: This is the company’s only location. They occupy 500 SF and have three to four employees. They have been in this building for 20 years. During this time, they have moved numerous times within the building. They have been in business since 1955.

* The information provided here was obtained from the employees that were interviewed. The tenants are listed here in the order in which they were interviewed, but does not necessarily correspond to the order that they were listed in the text of the thesis.
Exhibit 3: Interview Questionnaire*

The Potential of Tenant Relationships
Questions should lead to an understanding of what the full potential of a relationship with that tenant may be.

1. How important is real estate and its related services to the tenants business?
2. What are the tenants most and least valued services? Would they pay for more of the valued services?

Customization

1. Is the space that is leased and the services that are provided by the management customized to meet tenants’ needs, or is service standard, like a commodity?

Learning Relationships: Understanding Customers Needs
These questions are geared towards gaining an understanding of the type of relationship and the method of communication that the tenant currently has with management. The questions also try to gain insight on what method of communication would be effective in building learning relationships.

1. Describe the relationship that you have with the property management/tenant.
2. Do you want a better relationship?
3. Is a better relationship worth your time and effort?

Understanding a Product's Attributes
These questions are intended to discover what is recognized as the core product of office space and what attributes are additional features.

1. What are the minimum services and attributes required to lease space?
2. What services are optional?

Production/Delivery Strategy
This question is intended to provide information which will help lead to the development of flexible service offerings.

1. Can attributes which are currently included as part of the lease package be stripped out and offered as options?

Investment Analysis

1. Are the costs of individual services distinguishable from the total cost of the lease?

* This questionnaire served as the basis for every interview. Follow-on questions and discussion were based on the responses to these questions.
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Other references that I had but did not use. This section was not included in the thesis.

**BOOKS**


**CASE STUDIES**


**JOURNALS**


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